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FOREWORD

In 1946 the Bank published a 'Summary of Foreign Exchange Regulations' and followed it up with a second edition in 1951. This summary was, however, somewhat technical and the need was increasingly felt for a publication which would not merely bring the foreign exchange regulations up-to-date, but also set them against a wider economic background. In preparing the present 'Outline of Exchange Control in India,' we have kept in mind not only persons interested in financial affairs within the country, but also those outside, investors and the general public, who would like to have an idea, however brief, of the basis, the nature and the broad contents of the Indian exchange control. Since the outline is intended for a general understanding and appreciation of the exchange control regulations, it is not to be regarded as a substitute either for the Foreign Exchange Regulation Act, which constitutes the basis for exchange control, or the Exchange Control Manual issued to the authorised dealers in foreign exchange for conducting their business in accordance with the instructions issued by the Reserve Bank of India and the Government.

Reserve Bank of India,
Bombay, May 6, 1960.

B. K. MADAN,
Executive Director.

OUTLINE OF EXCHANGE CONTROL IN INDIA

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CHAPTER I

FUNCTIONS AND EVOLUTION OF EXCHANGE CONTROL

Exchange control was first introduced in India in September 1939 at the commencement of World War II and was then conceived mainly as a means for increasing India's contribution to the war effort, since India itself was not in danger of running into any balance of payments difficulties. Shortages abroad as well as shipping difficulties necessarily meant a severe reduction in imports, while the large demands made on India's resources by the Allied Governments during the war enabled India to develop a substantial surplus in its external transactions. Exchange control during the war was confined to transactions with non-sterling countries, the currencies of which, particularly dollars, had to be conserved for purchases of essential war materials. The control was thus directed to ensuring the maximum economy in India's expenditure of these currencies. During the war period India's earnings of non-sterling currencies exceeded its expenditure; these surpluses contributed substantially, year after year, to the 'dollar pool' of the sterling area countries and found their counterpart in the sterling assets of the Reserve Bank of India in the same way as India's surplus with the U. K. or other members of the sterling area.

Although by the termination of the war India had a large accumulation of sterling balances and was technically in a strong position to meet any adverse turns in its balance of payments, the circumstances were not propitious for any relaxation of exchange control. The control, far from being relaxed, had indeed to be extended to cover transactions which during the war years had been left free. The large pent up demand for imported goods precipitated a balance of payments deficit in the period immediately following the war. While the finance for the deficit had necessarily to come from sterling balances, the U. K. was not able to permit an unrestricted withdrawal of these balances, in view of its own balance of payments difficulties. Consultations held between the Governments of the U. K. and India resulted in a series of agreements restricting both the amount of sterling balances that could be drawn during the period covered by these agree-

ments, and the amount that could be converted into dollars. In these circumstances, India, already facing pressure on sterling balances as a result of the pent up demand for imports, had no option but to extend the scope of exchange control to cover transactions with sterling area countries with effect from July 1947. Geographical contiguity and the need for avoiding abrupt changes in the informal nature of the trade with Pakistan and Afghanistan delayed the extension of exchange control to these countries until February 1951.

Since 1947, exchange control in India has undergone little structural change, but it has acquired a different meaning and purpose in the context of the Five-Year Plans. In the earlier phases, the control was conceived as an expedient to meet either war-time emergencies or the situation created by restrictions, which largely came to an end by 1950, on the withdrawal of sterling balances. Since then the country's developmental effort, which of necessity has to be spread over a series of years, makes exchange control an instrument for the fulfilment of planned programmes. In the first half of the Second Five-Year Plan, the country drew heavily on its sterling balances, and these are now at a level where there is little cushion left in them for developmental purposes. For a country such as India, which has still to make much progress on the road to industrialisation, the development programme involves heavy reliance on borrowing abroad for financing balance of payments deficits; and this dependance may be expected to diminish only after the economy becomes largely self-sustaining. Since 1957, with the current import requirements already cut to the bone, and with a continuing necessity for developmental imports and for the servicing of foreign loans, a special responsibility devolves on the exchange control to assist in keeping the country's external finances in a solvent condition.

Indian Trade Control

Exchange control in India, it should be noted, is not the only official restriction affecting the country's external transactions. It supplements other regulations particularly those applied under the Imports and Exports Control Act, 1947. The regulations under this Act, hereafter referred to as the Trade Control, are concerned with the physical trans-

fers of goods whereas exchange control is concerned with the financial aspects of external transactions. The two controls are, however, closely co-ordinated. Once the import of goods is permitted by the grant of a licence, foreign exchange facilities are automatically provided. The Trade Control on exports is limited to a few items which are in short supply at home, whereas exchange control embraces all exports. A declaration is insisted upon from the exporters at the Customs barrier that the proceeds of exports will be repatriated to India in full, and that all export documents will be negotiated through the authorised dealers in foreign exchange. While imports and exports are subject to trade control and exchange control regulations, other external transactions on current and capital account — such as payments and receipts for services, and capital transfers — come almost wholly within the purview of exchange control.

Unitary Rate of Exchange

The Indian exchange control relies on a single rate of exchange for the conduct of the country's international transactions. In this respect the control differs from systems prevalent in some countries which rely on multiple exchange rates; these, however, run counter to the fundamental tenets of the International Monetary Fund. The Indian control involves a comprehensive application of restrictions over the entire field of payments, unlike systems of partial control which leave a proportion of transactions to be settled in the free market. But the mere fact that a country operates a comprehensive system of exchange control may not necessarily indicate that its control is more severe than that of another country which has partial control. Further, two countries, though following identical systems of exchange control, may yet be enforcing them with unequal effectiveness.

Currency Discrimination

The administration of exchange control in India mainly involves regulation of the overall foreign exchange expenditure, but in the past there was an element of discrimination as between different currencies. The discrimination was exercised on the basis of a broad grouping of currencies into 'hard' and 'soft'. During the war period, most of the non-sterling area countries were regarded as belonging to the hard currency

group; but in the immediate post-war years the hard currency group became somewhat more restricted covering countries belonging to the dollar area (the U.S.A. and its dependencies, Canada and some Latin American countries offering free convertibility of their currencies into dollars) and some European countries, particularly Switzerland, West Germany and Portugal. The distinction between 'hard' and 'soft' currency countries was based on the strong external payments position of the former group and the inability of sterling area countries to balance their accounts with hard currency countries. The situation was partly a result of the fact that some of the countries (for instance, the U.S.A., Canada and Switzerland) while escaping the ravages of the war emerged with a considerably increased industrial capacity and were in a relatively better position to meet the pressing requirements of the rest of the world in respect of rehabilitation and reconstruction. In the case of others (for instance, West Germany and Japan), though their economies were badly shattered of U.S. aid placed them (in a balance of payments sense) in a stronger position.

All countries (for instance, members of the sterling area, the large majority of the European, African and Asian countries) which had a tendency to run into deficits with hard currency countries, belonged to the soft currency group. Being faced with a shortage of hard currencies, the soft currency countries were compelled to operate a discriminatory system of trade and exchange controls to enable them to ration their supplies of hard currencies and adopt special measures for augmenting their supply; their transactions with soft currency countries, were, in general, subject to a smaller degree of regulation.

Since the early post-war days, the discriminatory features of exchange control have undergone important changes in the direction of liberalisation. Most of the industrial countries, which once practised discrimination to a marked extent, have gradually removed their restrictions and in some instances (Germany and the U.K.) discrimination has very nearly ended. The last major step towards the removal of discrimination took place in December 1958, when some thirty countries in Europe and elsewhere took concerted action in permitting free conversion of non-resident

current earnings of their currencies into any currency at official rates of exchange. The lead in this respect was given by the main West European countries, including the U.K., France and West Germany. The U.K.'s lead was supported and followed by the other sterling area countries including India. The significance of the convertibility move of 1958 consists in the fact that while under the arrangements which existed before, a country which earned soft currencies in its international transactions, was not in a position to utilise them freely for the purpose of meeting its obligations, say to a dollar country, it is now a matter of indifference to a country where its foreign exchange earnings come from. The basis for discrimination in import control has thus disappeared.

The Sterling Area

Quite independently of the distinction between hard currency and soft currency countries, the Indian exchange control has throughout made a distinction between transactions with sterling area countries and those with non-sterling area countries. At present, because of the developments referred to earlier, all distinctions whether between hard currency and soft currency countries or between sterling area and non-sterling area countries have been removed so far as current transactions are concerned. In the field of capital transfers, however, transactions with the sterling area are relatively free compared to transactions with the rest of the world.

Some reference may be appropriate in this context to the sterling area mechanism and the nature of the association represented by India's membership of the sterling area (see Appendix I). The sterling area owes its origin to the political and economic links forged between the U.K. and other countries of the Commonwealth during the past 200 years. The essential features of the association are that member countries (a) keep their foreign exchange reserves in pounds sterling and (b) maintain exchange rate stability with each other primarily by extending official support to the domestic currency in terms of the pound sterling within a narrow margin; the rate of exchange is, however, autonomously determined by each member country. One of the important results of the arrangement is that while member countries keep their reserves in sterling, their surplus earnings of non-sterling area currencies are transferred to the U.K. in return for sterling

deposits producing a central pool of these currencies owned and operated by the U.K. for the use of the members of the sterling area. It is as well to note here that while sterling held by non-residents in the sterling area is convertible, sterling held by residents is still not convertible.

The sterling area mechanism provides a multilateral clearing of the international transactions of member countries within and outside the sterling area. Within the area, all transactions between member countries are conducted only in sterling area currencies and the currencies so acquired are freely convertible into each other and into sterling. Under the various financial and monetary agreements concluded by the U.K. with non-sterling area countries, sterling is an acceptable medium of payment, and any member country is thus in a position to make use of its sterling balances for purposes of settling its obligations to non-sterling area countries. During the period when the European Payments Union was in operation, the clearing of transactions between the U.K. and the rest of the European countries was effected by including the transactions of the other sterling area countries along with those of the U.K.

The sterling area countries, though they have a broad uniformity of approach in regard to their policy towards non-sterling area countries, have not sought to attempt a complete standardisation of practices. In the matter of administration of exchange control, member countries are the sole arbiters of what transactions are to be controlled and to what degree. There have no doubt been attempts, especially in the early post-war years, to secure broad agreement in the conservation of hard currency expenditure, but now with the discrimination between currencies on the wane, the exchange control policies of member countries are increasingly being shaped by their own national requirements.

International Monetary Fund

India has certain international obligations to fulfil in the matter of exchange control. As a member of the International Monetary Fund, India has to consult with the Fund each year on the level of the restrictions maintained on exchange transactions and the progress achieved from time to time in regard to the dismantling of discriminatory controls,

that is, those which accord a less favourable treatment to transactions with one country as compared to another country. Abolition of exchange control by all members is one of the ultimate objectives of the Fund, but this does not preclude maintenance of restrictions on temporary or special grounds, and control over capital transactions.

Exchange Control Statistics

One of the important functions of exchange control is to ensure adequate and timely flow of statistical information on foreign exchange transactions. The statistical information sought by the exchange control consists of data supplied by the various authorised dealers in foreign exchange and forms filled in by the public in connection with their foreign exchange transactions. The authorised dealers have a special responsibility for securing compliance of the statistical formalities and transmission of the data to the exchange control authorities at regular intervals. Exchange control being basically a control over financial transactions, the administrative work has to be closely linked to a statistical review of those transactions on a continuing basis.

Exchange control statistics — largely an administrative by-product — also serve as a very useful source material for the compilation of India's balance of payments. The total number of primary documents emanating from the various centres every month is about 150,000. These are systematically coded and consolidated by means of the punch card system. The work is centralised in the Division of International Finance of the Economic Department of the Bank. This Division compiles balance of payments and allied statistics, and undertakes studies of the country's external transactions in all their aspects, including periodic reviews of the trend of payments and of the behaviour of the various component items. The importance of the detailed and comprehensive data consolidated from the primary exchange control documents is, in this context, self-evident.

CHAPTER II

CONSTITUTION AND ORGANISATION OF EXCHANGE CONTROL

Exchange control came into force by virtue of the emergency powers derived from the Defence of India Rules promulgated at the outbreak of World War II, and the financial provisions of these Rules formed the basis for the administration of the control. These war-time emergency powers were later placed on a permanent statutory basis by the Foreign Exchange Regulation Act, 1947 which became effective on March 25, 1947. The Act empowers the Government of India and the Reserve Bank to control and regulate dealings in foreign exchange and foreign securities in India, payments to persons resident outside India, export and import of currency notes, bullion or precious stones, transfer of securities to non-residents etc. There are also specific provisions prohibiting (a) dealings in foreign exchange by persons other than authorised dealers and (b) transactions which involve "conversions of Indian currency into foreign currency or foreign currency into Indian currency at rates of exchange other than the rates for the time being authorised by the Reserve Bank."

Authorised Dealers

In terms of the powers conferred by the Act, the Reserve Bank has licensed several banks to deal in foreign exchange. These banks, known as authorised dealers, are listed in Appendix II. In addition to the authorised dealers, there is a group of licenced dealers, known as authorised money changers who are engaged in the business of buying and selling foreign currency notes and coin. Unlike the authorised dealers, who are permitted to handle all kinds of foreign exchange business, the money changers deal in foreign currency notes and coin only.

Exchange Rates

The Act provides that the exchange rates used for the conduct of foreign exchange transactions should not be other

than those authorised by the Reserve Bank. Under the Articles of Agreement of the International Monetary Fund, member countries are required to maintain stability in their exchange rates, the permitted deviation from the accepted exchange parity as notified to the I.M.F. being not more than one per cent on either side of parity. Until the devaluation of the rupee in 1949, along with sterling and several other currencies, India's exchange parity agreed with the I.M.F. was 4·145 grains of fine gold per rupee. Since the devaluation it has been 2·880 grains per rupee. Expressed in terms of the two world currencies namely, the U.S. dollar and the pound sterling, the current rates are 21·0 U.S. cents and 1s. 6d. per rupee.

The Reserve Bank maintains the external stability of the rupee by supporting the rupee — sterling rate. The Bank buys sterling from authorised dealers at 1s. 6d. per rupee and sells sterling at the rate of 1s. 5-63/64d. per rupee.

The Reserve Bank does not deal directly with the public who must therefore conduct all their exchange transactions through authorised dealers. The rates for dealings with the public are fixed by authorised dealers in accordance with the general policy of the Reserve Bank. The Bank has recognised for this purpose the Foreign Exchange Dealers Association of India consisting of all the authorised dealers. The Association fixes the rate for dealings in pounds sterling in consultation with the Reserve Bank; and all authorised dealers are required to abide by the rate schedules published by the Association from time to time. They are, however, free to quote their own rates for all other currencies provided the rates are within the limits permitted by the I.M.F. While the authorised dealers are thus in a position to effect purchases and sales of other sterling area currencies at stable rates, they have ready access to the foreign exchange market in London where they can purchase or sell non-sterling area currencies at fine margins, the market being supported by the Bank of England to avoid variations beyond one per cent of the parity which *vis-a-vis* the U.S. dollar is \$ 2·80 per pound sterling.

Controlled by :-
Exchange Control Regulations, Notifications etc.

The various notifications and orders issued by the Government of India and the Reserve Bank under the Act are pub-

lished in the Gazette of India. The regulations framed by the Bank in regard to foreign exchange dealings of authorised dealers are contained in the Exchange Control Manual, copies of which have been supplied to them and any changes therein are notified to them as and when effected in the form of circulars which are later issued as amendments to the Manual.

Before undertaking any foreign exchange transactions, the public should consult their bankers. No member of the public is permitted to make payments directly or indirectly to or for the credit of or by order, or on behalf of a person resident outside India except with the general or special permission of the Reserve Bank. Similarly, drawing, issuing or negotiating of bills or notes or acknowledgement of any debt which can create a right to receive payments by a person resident outside India requires the general or special permission of the Bank. The Act also lays down that no person who has a right to receive foreign exchange or a payment in rupees from a person resident outside India shall do any act which may delay or cancel the receipt of such foreign exchange or payment; the Bank has powers to call upon any person, who has failed to comply with this requirement, to surrender the foreign exchange. Transfers of securities or creation of any interest in securities in favour of persons resident outside India, and transfers of control of companies from persons resident in India to persons resident outside India also require the general or special permission of the Bank. One of the important provisions of the Act, which deals with exchange control evasions of all kinds, is that which prohibits any person from entering into contracts or agreements which would either directly or indirectly evade or avoid any of the provisions of the Act or any rule or order made thereunder.

'General permissions' granted by the Bank in respect of some of the provisions of the Act are made known either through notifications published in the Gazette of India, or circulars issued to authorised dealers. 'Special permission' usually indicates the necessity for prior approval of the transaction by the Bank. In all these cases, the public should give full and accurate details to the authorised dealers through whom the transaction is to be put through. In those instances where the prior approval of the Bank is required, the Bank's decision should be obtained before entering into the transactions.

A substantial proportion of the applications for foreign exchange is disposed of by the authorised dealers themselves, on the basis of the authority delegated to them by the Bank. In these cases, the check exercised by the Bank is of a *post facto* nature. These checks are made possible by the details contained in the applications, and other declarations made by the public forwarded to the Bank by the authorised dealers. The declarations given by the public, as verified by the authorised dealers, provide important source material for the compilation of the country's international accounts.

Exchange Control Organisation in the Bank

The work relating to the administration of exchange control in the Bank is organised under a separate department called the Exchange Control Department. The Governor of the Bank is the Controller, while the Department functions under the immediate charge of the Deputy Controller. At the Central Office, located in Bombay, the Deputy Controller is assisted by two senior Assistant Controllers. The Department has also separate offices in Bombay, Calcutta, Madras, New Delhi and Kanpur, each of which is under the charge of an Assistant Controller. These offices handle most of the day-to-day work relating to exchange control. It is to these offices that all applications relating to exchange control are to be addressed and not to the Central Office. The jurisdiction of the different offices is given below ; banks and public may make applications to the office situated in the respective states.

<i>Exchange Control Offices</i>	<i>State</i>
Bombay	.. Gujarat and Maharashtra.
Calcutta	.. Assam, Bihar, Manipur, Orissa, Tripura and West Bengal (including Andaman and Nicobar Islands, and Manipur).
Kanpur	.. Madhya Pradesh and Uttar Pradesh.
Madras	.. Andhra Pradesh, Kerala (including Laccadive, Minicoy and Amindivi Islands), Madras and Mysore.
New Delhi	.. Delhi, Himachal Pradesh, Jammu and Kashmir, the Punjab and Rajasthan.

Directorate of Enforcement and Penalties.

For dealing with breaches of the provisions of the Act, there is a separate authority, namely, the Directorate of Enforcement attached to the Ministry of Finance with headquarters at New Delhi and offices in Bombay, Calcutta and Madras. The organisation is headed by a Director. For contraventions of the substantive provisions of the Act, there is a prescribed procedure of adjudication. After holding an inquiry, if the Director of Enforcement is satisfied that a person has committed the contravention, he may impose a penalty not exceeding three times the value of foreign exchange in respect of which the contravention has taken place or five thousand rupees whichever is more. Appeals in respect of punishments imposed by the Director of Enforcement lie with an Appellate Board, consisting of two members appointed by the Government. Failure to pay the penalty imposed by the Director of Enforcement or the Appellate Board would attract court proceedings.

If at any stage of his inquiry into the contravention, the Director of Enforcement is of the opinion that the penalty which he is empowered to impose will not be adequate, he may file a complaint in writing to the court. For all court proceedings involving contravention of the Act, the punishment upon conviction, is imprisonment for two years or fine or both.

CHAPTER III

PAYMENTS FOR IMPORTS

In India, nearly all imports of goods are subject to licensing by the Trade Control authorities under the Imports and Exports Control Act. The individual licences granted stipulate the value of goods to be imported and the period of validity. Equally important is the need to ensure that the exchange is utilised for the authorised purpose and no concealed export of capital takes place disguised as a payment for imports. All importers are, therefore, required to make their payments through the medium of authorised dealers, who in turn have to satisfy themselves that the release of foreign exchange is in accordance with the prescribed procedures and method of payment.

Persons intending to import goods into India are required to apply for a licence either to the Chief Controller of Imports and Exports or to the Regional licensing authorities. Import licences are issued in duplicate, one copy being marked for 'Customs purposes' and the other for 'Exchange Control purposes.' The Customs copy is for presentation to the Customs authorities for clearance of goods on arrival, and the Exchange control copy, which serves as an authority for making remittance in foreign exchange in payment of the goods, is for presentation to the authorised dealer through whom the remittance is to be made. No remittance for payment of goods, which are subject to licence, can be made without the production of the Exchange control copy of the relative licence. Where the goods to be imported are covered by an Open General Licence, for which no specific licence is issued, remittances in payment of the goods may be made on production of documentary evidence of import.

Possession of an import licence marked for 'Exchange Control purposes' carries with it authority to remit foreign exchange upto the amount stated in the licence. Unless otherwise indicated by the licensing authorities, the sale of foreign exchange can be made only to the person named in the import licence.

Importers, who are in possession of an import licence are allowed to cover their exchange risks by making a forward purchase of the foreign currency concerned from the authorised dealers. Foreign exchange in respect of goods to be imported under Open General Licence can also be covered for the period for which letters of credit are opened. The authorised dealers have, however, instructions to offer forward cover only in those cases where a letter of credit has been opened or a firm order for the goods has been placed abroad and accepted.

Opening of Letters of Credit

Letters of credit covering the import of goods subject to licence may be opened upto the amount stated in the licence, in favour of the manufacturer, supplier or shipper of goods for any period, provided the date of expiry of the credit is not later than 30 days after the final date of shipment specified in the import licence. A grace period of 15 days from the specified date is allowed by the Import Trade Control authorities for effecting shipments and the additional period of 15 days upto which credits may be opened is purely intended to provide sufficient time for negotiation of documents and is not to delay the shipment period beyond 15 days from the date stated in the import licence. Letters of credit covering import of goods under an Open General Licence may be opened for periods not longer than six months. In the case of licensed imports, the authorised dealers have been instructed to take possession of the licence and to make an endorsement of the value of the credit on the reverse of the Exchange control copy of the licence. For letters of credit established for imports from two or more countries under one and the same licence, the authorised dealer has to indicate separately the amount of credit available for import from each country.

For imports under Open General Licence, the credit can be opened not for a group of commodities, but for each commodity separately. The credit available for each country has also to be specified.

Procedure for Remittances

Applications for foreign exchange to pay for imports must be made to an authorised dealer on the appropriate form

with full particulars of the licence, quantity and description of the goods imported (including the relative serial number of the Import Trade Control classification), their country of origin and the currency in which they have been invoiced, and must be accompanied by the Exchange control copy of the import licence. There are four different types of forms ('A', 'A-6', 'SA-1', 'A-7') in use depending on the currency in which the payment is made. The importer should obtain from the authorised dealer, the form appropriate for the remittance in question.

The basic Exchange control regulation governing payments for imports is that payment must be made in the currency of (or credit to a non-resident account of) the country of origin of the goods, irrespective of the country from which the goods may be supplied or shipped. Accordingly, remittances against imports may either be made in the currency of the country of origin of the goods or by payment in sterling or rupees to the account of a resident in that country according to the method of payment permitted for transactions with the country concerned (see Appendix III). Payments for imports by a method other than the one prescribed are not permitted except with the prior approval of the Reserve Bank.

Normally, import licences are issued for the *c.i.f.* value of the goods to be imported and the importer concerned is entitled to make the remittance to the full amount stated in the licence. But when the goods are imported on an *f.o.b.* basis, leaving the freight and insurance to be paid in rupees to the agent in India, the remittance in foreign exchange can be made only to the extent of the *f.o.b.* value of the goods, irrespective of the value specified in the licence. When remittances are made on the strength of the Exchange control copy of an import licence, the authorised dealer concerned would endorse the amount remitted on the reverse of the licence. Endorsement of remittances made can be cancelled only if the sale of foreign exchange itself is cancelled. Licences which have been fully utilised are required to be surrendered to the Reserve Bank. The procedure laid down for making remittances is as follows:—

(i) *Imports under letters of credit:* Remittances in respect of imports financed under letters of credit may be made in

accordance with the terms and conditions provided under the letters of credit.

(ii) *Bills received for collection:* Remittances against bills received for collection may be made, provided the bills are accompanied by shipping documents.

(iii) *Clean bills:* In the case of clean bills, where the relative shipping documents are received by the importers direct, the importer is required to produce an Exchange control copy of the Customs bill of entry showing that the goods have been imported into India before remittances can be made. Where the goods have not arrived, the importer is required to sign an undertaking on the reverse of the application form to submit the Customs bill of entry within a period of three months from the date of remittance.

(iv) *Advance remittances:* Advance remittances in payment of imports before shipping documents are received are not normally permitted; but in special cases, for example, imports of machinery and capital goods covered by Capital Goods (C. G.) or Heavy Electrical Plant (H. E. P.) licences, where deposits have to be made with overseas manufacturers, the Reserve Bank grants special authorisation for advance payment for a part of the value of the import. Applications seeking permission will have to be accompanied by a declaration by the applicant that the foreign manufacturer or supplier is not prepared to undertake the business unless the amount applied for is paid in advance and have to be supported by (i) Exchange control copy of the 'C. G.' or 'H. E. P.' licence and (ii) a certified copy of the applicant's contract with the overseas manufacturer or supplier or other evidence stating terms of payments.

(v) *Remittances against advice of shipments:* Large importers who wish to make remittances against shipments already made or about to be made are required to apply for permission to the Reserve Bank. The applicants have to exhibit a cable from their agents abroad to the effect that the shipment has been made and lodge the Exchange control copies of import licences covering the full value of the shipment with the authorised dealer. On receipt of the application a standing authority will be given to the authorised dealers to make direct remittances to the overseas branches or agents of the importers.

(vi) *Remittances against private imports:* If a person wishes to import goods for his personal use, an import licence is not required provided such goods are received by post. The Reserve Bank does not, however, authorise remittances in payment of such imports except for special medicines, etc. which are not available locally.

(vii) *Remittances against imports into bond:* Goods imported into bond for the purpose of subsequent re-export require no licence and no payments can be made against such imports. However, where the imports are intended for victualling ships calling at Indian ports, the payments can be made with the prior permission of the Reserve Bank.

Special Facilities to Large Importers

Firms importing goods into India on consignment account not covered by bills of exchange can make special arrangements with the Reserve Bank for these remittances against the submission of auditor's certificates of sales from imported stock. Firms who wish to make such arrangements are required to apply to the Bank direct or through the medium of an authorised dealer. Similarly, certain firms are given general permission to remit round sums at intervals to their offices or agents in the United Kingdom or other sterling area countries, representing the difference between the totals of their imports and exports, or in order to cover general expenditure incurred overseas on their account including the purchase of goods. Applications for the purpose may be made direct to the Reserve Bank and must state clearly the types of payments that are being made from their accounts abroad. Firms enjoying round sum remittance facilities must submit to the Bank a monthly statement of all payments made from their accounts supported by the appropriate form setting out the purpose of payment. Unauthorised disbursements for purposes other than those specified may result in cancellation of the permit. Similar facilities are also extended to the major oil companies operating in India, who can make bulk remittances periodically, subject to their submitting a monthly statement of accounts with all the supporting documents.

Unauthorised Imports

Goods imported in an unauthorised manner are liable to be confiscated by Government except where the breach of

the regulation is only of a technical nature in which case, the Trade Control officer may authorise the clearance of goods on payment of penalty. In such cases the Customs authorities will issue an Exchange control copy of the bill of entry suitably endorsed to show that the import was unauthorised and was released on payment of penalty. Remittances in payment of such imports may be made on the strength of the Exchange control copy of the bill of entry.

No Objection Certificates

Where imports are received in India either as occasional gifts or for free distribution (for example, advertising material, samples, etc.) the Reserve Bank will, on application being made, issue a no objection certificate to the importers concerned to enable them to clear the goods, provided the Bank is satisfied that the transactions do not involve any payment in foreign exchange either directly or indirectly. The Bank does not, however, issue such a certificate in respect of articles brought in as personal baggage and these may be cleared only subject to such conditions as may be laid down by the Customs authorities.

Intermediary Financing

Very often intermediaries in India arrange for imports into other countries, payments for which are to be made from India. In the case of imports from one country to another, remittances in sterling or sterling area currencies are allowed freely, provided a remittance in reimbursement is received in India. Financing of imports from one non-sterling area country to another, as also the purchase of non-sterling area currencies to finance imports into other sterling area countries, require the prior approval of the Reserve Bank.

CHAPTER IV

PAYMENTS ABROAD FOR PURPOSES OTHER THAN IMPORTS

Payments for purposes other than imports constitute a significant element in the country's total foreign exchange outlay. Private remittances on this account in recent years have averaged well over Rs. 100 crores per year. Apart from serving as a means for regulating the expenditures abroad in respect of these items, the control has another important objective, namely, that of preventing a possible drain on the exchange resources through large-scale transfers of capital assets abroad by residents. While imports are primarily regulated by the import control authorities, payments for other purposes are controlled and supervised by the Reserve Bank. The general policy regarding control over these items is laid down by Government.

As mentioned in Chapter II, the day-to-day administration of control by the Bank involves a large measure of delegation of powers to the authorised dealers. In matters so delegated to them, the authorised dealers may themselves approve the remittances, the sale of exchange being merely reported to the Bank, together with the form filled in by the applicant. In a number of instances, however, the remittances are permitted only against approval by the Bank.

For convenience, foreign exchange released for purposes other than imports, may be classified under the following heads:—

1. Foreign travel payments including allowances for students and trainees.
2. Transportation payments.
3. Insurance payments.
4. Transfers of investment income by non-residents.
5. Family maintenance remittances, etc.

6. Miscellaneous payments other than capital transfers.
7. Capital transfers by foreign nationals.
8. Capital transfers by Indian nationals.

1. Foreign Travel Payments

Foreign travel is undertaken for various purposes, for example, for study and training, business and cultural visits, pilgrimages, medical treatment, attendance at international conferences and tourism, that is, travel for pleasure. Under the regulations currently in force all categories of travel require the prior approval of the Bank, excepting Haj travel for which there is a separately constituted authority, namely, the Port Haj Committee, Bombay. Applications other than for Haj travel are considered by the Bank on an individual basis and approved according to certain rules of essentiality. No exchange is at present allowed for pleasure travel by Indian nationals. The restrictions on pleasure travel are necessitated by the continued difficult foreign exchange position.

Travellers who have been granted foreign exchange for their expenses abroad are under an obligation to sell all unexpended foreign exchange to an authorised dealer on their return to India. It will be an offence if they utilize it for purposes other than those for which it has been granted or share it with another person.

Students and trainees: Students proceeding abroad for higher education are required to complete the questionnaire prescribed for the purpose; the form can be had from the Reserve Bank or any authorised dealer. At present exchange is released to students going abroad to take up graduate or post-graduate studies. Exchange is also released for a few diploma courses conducted by foreign universities as well as specified technical courses. There are regular scales of foreign exchange fixed for various countries. On approval of the application a permit authorising remittances on the prescribed scale is issued by the Bank.

Where the student or trainee is employed by a government or a state-owned or statutory body and is being deputed

abroad by his employers, application has to be made to the Government of India, Ministry of Finance, New Delhi, through the proper administrative channel for issue of an authorisation to the Reserve Bank for release of the required foreign exchange.

Trainees going abroad on private arrangements should complete the questionnaire referred to earlier and should also provide documentary evidence in the form of a letter of the foreign firm providing the training, stating its duration and stipend/remuneration, if any, payable.

Business visits: Persons proceeding abroad for business reasons have to apply for their exchange requirements by completing the questionnaire, a copy of which would be available from their bankers. They have to state in full therein why their visit to a foreign country is essential.

Pilgrimage: Haj travel to Saudi Arabia constitutes the most important pilgrim traffic outside the country. The Bank as such does not administer the facilities in regard to Haj travel, the work being done by the Port Haj Committee, Carnac Road, Bombay. All Haj pilgrims are required to apply to this Committee for their travel arrangements. There are fixed limits for the currency — special Indian currency notes for Haj travel — which various types of travellers, deck or first class passengers by ship, or air passengers, are allowed to carry with them. The special Indian currency notes are a substitute for foreign exchange and can be readily encashed into Saudi Arabian currency by the travellers for meeting their requirements during the pilgrimage. The special notes are sold at the office of the Port Haj Committee and at the Reserve Bank, Bombay.

Indian Muslims proceeding to Iraq and Iran on pilgrimage are granted reasonable exchange facilities on application to the Bank. This facility is available to a person once in two years only.

Medical treatment abroad: A recommendation from the Presidency Surgeon with the countersignature of the Administrative Medical Officer in each state, is a pre-condition for exchange facilities for travel on medical or health grounds abroad. Exchange is granted only if the ailment is of a

serious nature or if the treatment or diagnostic and other facilities are not available in India. Exchange is granted commensurate with the requirements in each individual case, depending on the nature and period of treatment abroad. Applications for exchange over and above that allowed at the time of granting the permit will have to be supported by hospital/sanatorium bills with a recommendation from the doctor in attendance.

If persons who have gone abroad on a business trip or for some other purpose find themselves in need of medical attention, they may make an application for foreign exchange facilities through the diplomatic mission for India in the foreign country. All applications of this type should be accompanied by a certificate signed by two doctors nominated by the India Government representative.

Official travel: Foreign exchange for travel abroad by Government officials or official or officially-sponsored delegations requires the sanction of the Ministry of Finance (Department of Economic Affairs), Government of India, New Delhi. The sanction obtained from the Ministry of Finance should be produced to the Bank, for securing the permit for release of foreign exchange.

Travel by foreign nationals: Foreign nationals in India proceeding on leave or vacation abroad are granted the necessary exchange facilities on application. In general, they are allowed to have their leave salaries or current income remitted to their home country during their stay abroad.

2. Transportation Payments

With Indian shipping yet to be developed the major part of the country's international trade is carried in foreign bottoms. In addition, substantial amounts are expended on passage money paid to foreign shipping and air lines on account of Indian passengers going abroad. There are also considerable payments abroad by way of expenses incurred by Indian shipping and airline companies and charter hire paid in respect of foreign vessels and aircraft engaged by Indian operators. Exchange facilities available for different types of transportation payments are indicated below:—

Freight payments abroad: Freight on imports carried in foreign bottoms is for the most part paid for along with im-

ports, the sale contracts entered by importers being usually on *c.i.f.* or *c.f.* basis. In those instances, where the contract is on an *f.o.b.* basis, the importers may book the freight with a foreign shipping/airline company or its agent in India by paying rupees. If the payment is made in rupees, the amount is endorsed on the exchange control copy of the import licence (which is usually for the *c.i.f.* value) with the result that its value stands reduced to the extent of freight paid in rupees.

Freight on exports, is to a large extent arranged in rupees by the Indian exporters. The freight is booked mostly with agents of foreign shipping/airline companies in India. Ordinarily, the shipping and airline companies are allowed to accept rupee payments only in respect of goods of Indian ownership. In the case of goods of other countries shipped or transhipped from Indian ports the freight can be booked in rupees only if a certificate is produced from an authorised dealer that equivalent foreign exchange has been sold in India by the exporters concerned.

Passage payments: Residents of India who go abroad are allowed to book their passage in rupees with shipping/airline companies or their agents in India. The Bank has fixed the maximum single/return fares for different destinations. The booking is permitted only by a direct route and round the world tickets are as a rule disallowed. Refunds against unused tickets should be made only in rupees. Passages to the continent of America and to the Philippines can be booked only after the passenger produces evidence of having obtained an exchange permit from the Bank. This requirement does not apply to passages for other destinations.

It is necessary to obtain prior permission of the Bank to book passages to a destination outside India in the following cases: (i) the fare for the passage required by a passenger exceeds the limits specified by the Bank, (ii) a person wishes to have a round the world ticket, (iii) non-residents are to be issued tickets against rupees paid by residents and (iv) passages are to be booked to the continent of America or to the Philippines for residents of India who have not obtained a foreign exchange permit from the Bank.

In all other cases passages may be booked with any steamship or airline without obtaining the prior permission of the Bank. It may be added that residents of India do not require the permission of the Bank for making payments in rupees for the return passage of students, businessmen and other residents of India who are temporarily outside the country and who had not purchased their return ticket at the time of their departure.

Non-residents who are on short visits to India are allowed to book their passages in India against rupee payments, provided the rupees have been obtained by sale of foreign currency by them. A certificate from the authorised dealer to this effect will be necessary.

Chartering of foreign vessels: Chartering of foreign vessels by Indian operators has to be approved by the Director-General of Shipping, Ministry of Transport and Communications. The remittances of charter-hire and the associated expenses need the prior approval of the Bank; applications should be supported by documentary evidence that the charter arrangement has the approval of the Director-General of Shipping.

3. Insurance Payments

Life insurance: Persons of Indian domicile are not permitted to obtain policies issued in a foreign currency. Non-residents and persons of foreign domicile in India may, however, be issued foreign currency policies.

It is necessary to obtain the prior approval of the Bank for converting existing rupee policies into foreign currency policies and for transferring the records of such policies to an office outside India. Assignment of policies by a resident to a non-resident or by one non-resident to another non-resident requires the Bank's permission except where the assignment is without valuable consideration to a non-resident relative of the policy holder.

Persons of foreign domicile in India, holding policies taken in a foreign country, are granted facilities for making remittances of premiums. Usually, there will be no occasion for foreign nationals claiming any specific remittances for insurance premium as they are allowed adequate remittance facilities for meeting all their current expenses abroad.

Claims can be paid or converted into foreign currency only in the following circumstances: (i) when a rupee policy has been assigned without valuable consideration to a non-resident relative, (ii) when the policy has been issued to a foreign national in India, (iii) when the policy has been issued to a non-resident, premiums having been collected from the non-resident's rupee account or through remittances from outside the country.

Marine insurance: Marine Insurance policies can be taken out in Indian rupees or foreign currencies except in the case of coastal shipments which are insurable only in Indian rupees. Normally, permission to cover risks with an insurer outside the country and to remit the premium is not granted unless the risks are of a type that cannot be covered in India.

Any disbursement of marine claims in foreign currency requires the Bank's permission and applications should be supported by documentary evidence. Claims in respect of exports from India can be disbursed in foreign currency, only if the ownership has already passed into the hands of the foreign importer. Claims in respect of imports, will be allowed in foreign currency, only if the goods are still in the ownership of the foreign exporter.

Other general insurance: Risks inside India on assets owned by residents may only be insured in Indian rupees. Assets outside India may be covered in rupees or foreign currencies. Non-residents taking a policy in India are required to remit the premiums either in foreign currency or by transfers from their rupee accounts in India. For foreign currency policies issued to residents, the premiums can be remitted abroad.

Remittance of claims requires approval by the Bank. Applications must be supported by documentary evidence. Claims due to non-residents are permitted freely.

Re-insurance: Re-insurance payments have to be approved by the Bank. Applications must be supported by the relevant treaty arrangements.

4. Transfers of Investment Income by Non-residents

The procedures in regard to transfers of profits, interest and dividends by non-resident companies and in-

dividuals on their investments in India are indicated in Chapter VII.

5. Family Maintenance Remittances, etc.

Family maintenance: Persons of foreign domicile resident in India are, in general, offered liberal remittance facilities for maintenance of their families abroad. Remittances to Pakistan and Afghanistan are allowed on a special basis. Persons resident in India who wish to be regarded as foreign nationals should provide evidence that they are of foreign domicile. A person is not regarded as of foreign domicile merely on the basis of his nationality or place of birth. The duration and purpose of his stay in India are taken into account in determining his status for exchange control purposes. A person of foreign descent (both the parents being of foreign nationality), but one who has been residing in India since birth and has no tangible connections with a foreign country would be regarded as having Indian domicile and ranked for the purpose of exchange control accordingly. Another rule followed is that wives cannot claim separate nationality. Foreign born wives of Indian nationals are deemed to be Indian nationals, even if their country of birth permits them to retain their previous nationality. Children of Indian fathers, regardless of their country of birth, or of the nationality of their mothers, are treated as Indian nationals.

Remittances by persons of Indian domicile for maintenance and support of families or dependants outside India are not usually permitted. Where a person has special grounds for making remittances, he should make an application in the prescribed form to the Bank stating reasons. A copy of the declaration form prescribed by the Bank for this purpose may be obtained from the authorised dealer through whom the remittance is to be made. The remittances, if allowed, would be for a period upto 6-12 months for a specified sum. Once a permit is obtained, the remittances may be made at regular intervals without reference to the Bank. On the expiry of the period indicated in the permit, a fresh application has to be made to the Bank.

Sterling area nationals are allowed a free limit of £150 per month from their current earnings for family maintenance and other current expenses; upto this limit the authorised

dealers are permitted to approve the remittances without reference to the Bank, provided satisfactory evidence of nationality is furnished. This facility is available for the principal member of the family only and not for the other members, for example, wife, children, etc. Remittances in excess of £150 per month require the permission of the Bank.

Persons of Pakistani domicile and persons domiciled in India who have dependants in Pakistan are permitted to make moderate remittances for their maintenance. Applications have to be made in duplicate on the prescribed form to the Collector/Commissioner of the District in which they reside. The Collector has authority to issue permits for remittances not exceeding Rs. 50 per month for a stated period. Permits have to be produced before the authorised dealers through whom the remittances are to be made. Permission of the Bank is necessary only when the remittances exceed Rs. 50.

Nationals of non-sterling area countries who wish to make remittances for family maintenance, etc. have to apply to the Reserve Bank through the authorised dealer with details of monthly salary net of income-tax, intervals at which it is desired to make remittance, and the amount of each remittance. Ordinarily, remittances will be allowed only to the country of domicile of the non-sterling area national. In special cases, remittances may be allowed for support of families in countries other than their own.

Pensions: Remittance of pensions can be made without the Bank's prior approval to any part of the sterling area excepting Pakistan. Evidence should be produced to show that the beneficiary is a permanent resident of the country to which the money is remitted. Remittances to other countries including Pakistan can be made only with the approval of the Bank.

Casual gift remittances: Remittances of this type are allowed provided the amounts are small. Applications should be made to the Bank for sending these remittances. Approval is given only if the beneficiaries are close relatives or dependants of the applicant.

6. Miscellaneous Payments other than Capital Transfers

These may be broadly divided into business and private expenditures. Types of payments which may be said to

come under the business category are payments for business representatives and agency services abroad, commissions payable to non-residents on exports, payments for foreign technicians or personnel engaged by business firms in India, remittances of patent fees, royalties, etc., purchase of copyright material or special articles by newspapers and advertisement charges. Private payments include subscriptions to foreign magazines, purchase of books, membership fees to clubs, scientific, technical and educational institutions abroad and payments for correspondence courses.

(i) **Business Payments**

Business payments abroad, in general, require the approval of the Bank. The applications have to be made in writing to the Bank together with full particulars as to the necessity of the expenditure. The procedure to be followed in individual cases is referred to below:—

Stationing of business representatives and agents abroad: Applications should be made to the Bank giving, among other details, the nature and volume of business conducted abroad, estimated recurring expenditure and an indication of the economic advantages of the proposal from the point of view of the country.

Remittances for maintaining business representation abroad are to be distinguished from those for opening of full-fledged offices overseas by business concerns. The latter type of remittances would be partly in the nature of capital investments abroad. Applications for this purpose should be made to the Bank.

Purchase of copyright material or special articles by newspapers: The authorised dealers are given permission to approve remittances by Indian newspapers or magazines for these purposes without reference to the Bank. But applicants should furnish the following particulars in the forms filled in by them: (i) name and address of the beneficiary abroad, (ii) nature of the article or material for which payment is made, (iii) whether the payment is of a recurring nature, and (iv) name of the journal and the date of publication of the article.

Advertisement charges: Payments for purpose of advertisement in foreign magazines or periodicals have to be approved

by the Bank and the applicants should furnish details, such as the nature of the business done by the Indian firm, the object of the advertisement, the text of the advertisement and name of the foreign journal. The applicant should also give an indication whether the assistance of the India Government Trade Commissioner was sought and the result thereof.

Commission on exports, short-shipment claims, etc.: The exporters have to make an application to the Bank for remittances in respect of commissions payable abroad, short-shipments and other claims made by foreign buyers. The applications should be supported by documentary evidence of agreements entered into between the exporter and the foreign importer.

Payments for foreign technicians or personnel: Applications are to be made to the Bank together with evidence to show that a visa, where necessary, has been granted by the Government of India.

Patent fees and royalties: These consist of (a) payments abroad for registration or renewal of Indian patents by persons or firms in India and (b) royalties, rentals and fees payable by Indian users of foreign patents, copyrights, technical processes and engineering drawings. The Indian patent holders, who desire to make remittances abroad should apply to the Bank enclosing copies of correspondence or contracts entered into with the users of the patents abroad.

Indian firms or companies entering into agreements with foreign manufacturers for obtaining patent rights etc., have to obtain the approval of the Ministry of Commerce and Industry (Industrial Policy Section), New Delhi. The applications have to be made to the Ministry in the form prescribed for the purpose, which can be had from the leading Chambers of Commerce in India. Where the remittances are of a recurring nature, permits granted would enable the applicant to make the remittances on an approved scale valid for fixed periods.

(ii) Private Payments

Purchase of foreign magazines and books : Facilities are given to individuals, Government offices, clubs, libraries

and other users for remittances of foreign exchange towards subscription to foreign journals and purchase of books. The remittances can be approved by the authorised dealers without reference to the Bank. The applications made to the authorised dealers should state the name of the magazines or books; the period for which the subscription is being remitted and the name and address of the beneficiary abroad. Not more than one copy of magazines or books would be allowed for each individual. The beneficiary of the remittance, as stated in the application should be a firm of publishers or distributors. These facilities are available only for imports of books and magazines where the values are within the exemption limit specified by the Import Control authorities from time to time; remittances against imports exceeding the limit are permitted only against a valid import licence.

Subscriptions to clubs and institutions: Remittances of membership fees to *bonafide* scientific, technical and educational institutions abroad are allowed freely on application to the authorised dealers provided the sums do not exceed Rs. 200 per year. The applications should state the name and address of the foreign institution, the amount of subscription payable and the period for which the subscription is valid. Remittances in excess of Rs. 200 have to be approved by the Bank.

Correspondence courses: There is a free limit of Rs. 200 per year allowed for payment of fees for correspondence courses conducted in countries outside India. Applications for their remittance should contain information on (a) the nature of the course and its duration, (b) name and address of the foreign institution and (c) the fees payable. In the case of courses involving import of kit, remittance of cost of the kit can be effected only against an import licence, unless the value thereof is within the limit prescribed by the Import Trade Control for import of articles for personal use without a licence.

(iii) Other Private or Business Remittances

Remittances not specified above would normally require the approval of the Bank. Application for any of the unspecified categories of payments should be made to the

Bank with full details. It may be stated that in view of the country's foreign exchange position, expenditure of a non-essential nature, for example, remittances for lotteries and sweepstakes, is not permitted.

7. Capital Transfers by Foreign Nationals

Capital transfers from India on account of foreign nationals are broadly of four types: (i) remittances abroad for investment purposes by persons of foreign domicile residing in India, (ii) remittances of sale proceeds of assets by persons of foreign domicile retiring from India, (iii) repatriation of investments in India by persons residing outside the country and (iv) transfer of proceeds of legacies and bequests.

(i) *Investment remittances by persons of foreign domicile:* Sterling area nationals not domiciled in India are permitted to make remittances for investment purposes to other sterling area countries. The applications have to be approved by the Bank before the remittances are made. The applicant should provide information regarding sources of his funds, his nationality and his occupation besides evidence to show that the remittance is for an investment purpose, for example, purchase of securities, real estate, etc.

(ii) *Capital transfers of retiring foreign nationals:* Applications for transfer of capital assets held in India by persons of sterling area domicile (other than Pakistani citizens) to any sterling area country have to be supported by evidence to the effect that the person is actually retiring to a sterling area country, that the funds sought to be transferred belong to the remitter and that income-tax clearance has been obtained. Transfer of assets by a sterling area national to a non-sterling area country is permitted upto £5,000.

Nationals of non-sterling area countries in India, retiring from this country, have to make an application to the Bank for transfer of their assets from India. The applications should be accompanied by a declaration prescribed for this purpose. Ordinarily, such persons are allowed to transfer current remittable assets such as savings, dividends, commissions, provident fund, etc., in full. In addition they are also allowed to transfer the sale proceeds of their investments subject to a limit of Rs. 1,25,000 per holder. These facilities

are offered only for transfers to the home country of the retiring persons.

(iii) *Repatriation of investments in India by non-residents:* Repatriation of investments held in India by residents of other sterling area countries (excepting Pakistani investments) are allowed freely, although in most cases it is subject to approval by the Reserve Bank.

Repatriation of investments by non-resident investors of other countries requires the prior sanction of the Bank but permission is readily granted for repatriation of investments by non-sterling area investors in industries established with Government approval after January 1, 1950. Fuller details are given in Chapter VII.

(iv) *Transfer of sale proceeds of legacies and bequests:* Persons who are resident outside the country and who, having become owners of assets held in India through legacies and bequests under wills of deceased persons, wish to transfer the assets outside the country should make an application to the Bank with the necessary legal documents.

8. Capital Transfers by Indian Nationals

Capital investments abroad by Indian nationals are permitted only in special circumstances. Indian nationals emigrating to other countries are, however, given reasonable facilities for the transfer of their assets abroad. Applications should be addressed to the Bank. Under the present regulations the maximum remittance limit for *each family* emigrating from India is Rs. 50,000 available for any country.

CHAPTER V

RECEIPTS FROM EXPORTS

Unlike imports, most exports are free from trade control. During the war and early post-war years, scarcity conditions necessitated trade controls over a wide range of commodities. The change-over to a buyers' market and the over-riding necessity to tap all avenues of foreign exchange have brought about a major shift in Government policy in the direction of export promotion. Following a series of measures taken by Government to decontrol exports, only a few commodities, the supplies of which are either inadequate to meet domestic requirements or are of national importance, now remain on the trade control list. Exchange control, however, applies to all exports, irrespective of whether the items involved are restricted or not, its primary purpose being to ensure that the full foreign exchange proceeds from exports are made over promptly to the Control through the authorised dealers.

Exchange control on exports is exercised by requiring all exporters (a) to make a declaration on the prescribed form to the Customs Collector that foreign exchange representing the full export value of the goods has been or will be disposed of in a manner and within the period specified by the Reserve Bank, (b) to negotiate all shipping documents, including those relating to sales on consignment basis, through the authorised dealers and (c) to receive payment by an approved method. Exports of gold, jewellery or precious stones are prohibited except with the general or special permission of the Reserve Bank (see Chapter VIII).

Persons desiring to export commodities which are subject to trade control have to obtain an export licence from the Chief Controller of Imports and Exports, Ministry of Commerce and Industry, New Delhi or one of the Regional licensing authorities. The export licence together with the shipping bill (completed in duplicate, triplicate or quadruplicate as the case may be) and the appropriate exchange control form duly completed has to be delivered by the exporter to the Export Department of the Customs

at the port of export. Where the export is licensed freely, requiring no specific licence, the permission to export the stated quantities is endorsed on the shipping bill by the Export Control authority at the port. After scrutinising the documents regarding their correctness and validity, the Customs authorities carry out the physical examination mainly to ascertain the value, description, etc. of the goods and sanction their export.

Exchange Control Declaration Forms

Exporters have to make a declaration on the appropriate exchange control form which has to be submitted to the Customs authorities at the time of shipment. The particulars to be furnished in the form comprise the invoice value of shipment, the type of goods, the method by and the currency in which payment is to be received and the name of the authorised dealer through whom documents are to be passed. The prescribed forms of declaration are as follows:—

(i) *Form G. R. 1* : The form is for general use for declaring exports to all countries (other than Pakistan and Afghanistan) to which the exchange control procedure applies, where payment is to be received by one of the prescribed methods in a permitted currency.

(ii) *Form G. R. 2* : Goods exported to non-sterling area countries (excluding Afghanistan) under either of the arrangements specified below are to be declared on form G. R. 2: (a) where shipments are financed under guarantee given by the U. K. agents of the exporters to the Bank of England to deliver to it the appropriate foreign currency or to obtain payment in sterling from an appropriate sterling non-resident account in the U. K., and (b) where the sterling proceeds of shipments to countries outside the sterling area are intended to be retained with the U. K. agents of the exporters for financing their imports into India or to make approved types of payment abroad.

(iii) *Form G. R. 3* : This form is to be filled in by exporters who under special arrangements entered into with the Reserve Bank are permitted to retain the proceeds of their exports to sterling area countries excluding Pakistan with their agents or branches in the U. K. or other sterling area

countries excepting Pakistan for financing their imports from those countries into India or to make other approved types of payment there.

(iv) *Form E. P.*: Form E. P. is for general use for declaring shipments to Pakistan and Afghanistan only and is similar in nature to form G. R. 1.

(v) *Form E. P. 1*: Form E. P. I, which is similar to form G. R. 3, is for the use of exporters to Pakistan and Afghanistan who have been authorised by the Reserve Bank to retain the proceeds of their exports to those countries and to utilise them for payment of imports into India.

Procedure relating to Export Declarations

All exports whether they are against a firm sale contract or on a consignment basis have to be declared on the appropriate exchange control form. The procedure to be followed for making the declaration on the respective forms is as under:

(i) *Forms G. R. 1 and G. R. 2*: G. R. 1 and G. R. 2 forms are to be completed in triplicate. The first copy is for submission to the Customs at the time of shipment, and the remaining copies along with shipping documents and an extra copy of the shipper's invoice are to be delivered to the authorised dealer. The authorised dealer after verifying the particulars given in the form will forward the second copy of the G.R. form to the Reserve Bank. The third copy of the form will be retained by the authorised dealer until the receipt of advice of payment after which that copy is also forwarded to the Reserve Bank. The manner in which payment has been received is specified on the reverse of this copy. Where the proceeds of exports declared on G.R. 2 form are to be utilised for financing of imports etc., the procedure is the same as that applicable to G. R. 3 exports indicated below.

Occasionally, the exporters draw clean bills on foreign parties covering shipments to be made later. In all such cases the G.R. forms have to be completed twice, first, when the bills are drawn, and again, when the shipments are effected. At the first stage the exporters are required to complete the

first and second copies of the G.R. forms, which will be sent to the Reserve Bank by the authorised dealer after negotiation with a note to the effect that the shipment is being made at a later date. When the shipment is actually effected, a fresh set of G.R. forms are to be completed by the exporter, the *first copy* of which is to be submitted to the Customs along with the relative shipping bill; the remaining copies are to be sent to the Reserve Bank through the authorised dealer who negotiated the original clean bill.

In cases where exporters follow the practice of *drawing bills for only a percentage of the invoice value*, the balance being payable after arrival of the goods at destination, they are required to give an undertaking to the negotiating bank that the balance of proceeds will be surrendered when received. An endorsement to this effect is to be made on the second copy of the G.R. form by the authorised dealer concerned before forwarding it to the Reserve Bank. The third copy is to be submitted by him to the Reserve Bank only after full payment has been received.

(ii) *Form G.R. 3*: Form G.R. 3 is also to be completed in triplicate. As before, the first copy is for submission to the Customs authorities at the time of shipment. The *second and third copies* are to be sent to the Reserve Bank, the former at the end of the month in which the shipment is made, and the latter after the proceeds have been realised and credited to the shipper's account.

(iii) *Forms E.P. and E.P. 1*: Forms E.P. and E.P. 1 are also to be completed in triplicate and the procedure to be followed is the same as for G.R. 1 and G.R. 3 forms respectively. In cases where the bills drawn cover only a percentage value of the invoice, the procedure prescribed for the G. R. forms will apply.

(iv) *Consignment exports*: As mentioned earlier, exports on a consignment basis have to be declared on G.R. or E.P. forms as the case may be. The procedure for completing the declaration forms is the same as for exports against firm sale contracts, except that the third copy of the form should be accompanied by accounts of sales.

While the foregoing details cover briefly the exchange control formalities in regard to exports, it needs to be em-

phasised that compliance with the exchange control regulations does not relieve exporters of the necessity of obtaining export licences from the Trade Control authorities in the case of goods whose export is permitted only under licence.

Permitted Currencies for Receiving Payment for Exports

Payment for exports can be received only in any of the permitted currencies, either by drawing bills or by clean remittances. Normally, exports can be financed in Indian rupees, pounds sterling or other sterling area currencies or a 'specified currency'. Under the United Kingdom regulations, the Government of that country specify certain foreign currencies which are required to be offered for sale to an authorised dealer by residents of the U.K. who acquire them. These currencies are known as 'specified currencies'. The currencies concerned are Austrian schillings, Belgian francs, Danish kroner, Deutsche marks, French francs, Iraqi dinars, Italian lire, Dutch guilders, Norwegian kroner, Portuguese escudos, Swedish kronor, Swiss francs, and U.S. dollars. The appropriate currency or currencies in which payments can be realised from the individual countries are listed in Appendix IV.

Time Limit for the Realisation of Foreign Exchange Proceeds

The period prescribed for the realisation of foreign exchange proceeds of exports from India is six months, except in the case of Pakistan and Afghanistan where the period is three months. As a rule, exporters are required to adhere strictly to the prescribed time limit for the delivery of export proceeds to the authorised dealer. Where the proceeds are not received within the time specified, the exporter has to apply to the Reserve Bank stating the reasons for non-delivery of the export proceeds. The Bank may grant an extension of time if the circumstances appear to warrant it. In cases where the Bank does not consider it necessary to grant an extension, it may instruct the person entitled to sell the goods to procure their sale and obtain payment in an approved manner. Alternatively, the Reserve Bank may order that the goods be assigned to the Government of India or to a person specified on its behalf. Failure to comply with any general or special directions given by the Reserve Bank will render the exporters liable to penalties prescribed in the Foreign Exchange Regulation Act, 1947.

Exports by Parcel Post

Exports by post parcel have to be declared on P.P. forms. The P.P. form procedure is, however, waived in the case of parcels which are (a) covered by certificates issued by the Reserve Bank or by an authorised dealer that the export of the parcel does not involve any transaction in foreign exchange, (b) accompanied by a declaration by the sender addressed to the postal authorities to the effect that the value of the contents of the parcel is less than Rs. 50 and that despatching it does not involve any transaction in foreign exchange or (c) despatched under the order of the Government of India or of the defence authorities. All parcels containing articles of jewellery or precious stones of over Rs. 50 in value have to be produced for valuation to the Customs who will seal the parcel and stamp the invoice before the relative P.P. forms are countersigned by an authorised dealer.

The procedure in respect of declarations on P.P. forms is similar to that for G. R. and E. P. forms, except that the authorised dealer has to countersign the original copy of the P.P. form, after satisfying himself that the parcel has been valued and sealed, before it is presented to the postal authorities. In cases where exporters are unable to get the P.P. forms countersigned by the authorised dealers owing to the absence of banking facilities in the country of destination of parcels, the Reserve Bank, will on application countersign the P.P. forms provided satisfactory guarantee is furnished by the applicants for the realisation of the proceeds.

Gift Parcels

Gift parcels are permitted, waiving G.R./E.P./P.P. form procedure only if the export does not involve any transaction in foreign exchange. Normally, if the contents of the parcel do not exceed Rs. 50 in value, the exchange control formalities are waived on the strength of the declaration made by the sender. But where the value of the contents exceeds Rs. 50 but is less than Rs. 270 a declaration from the authorised dealer is necessary for exempting the despatch of the parcel from the regular formalities. In all other cases, prior permission of the Reserve Bank is necessary for sending gift parcels.

CHAPTER VI

RECEIPTS FROM ABROAD, OTHER THAN FROM EXPORTS

One of the primary objectives of exchange control is to conserve and augment the total supply of foreign exchange available to the community. The objective is not merely to prevent unauthorised uses of foreign exchange but also to ensure their prompt transfer to the official pool.

It is the duty of every citizen and every person resident in India who comes in possession of foreign exchange to transfer the amounts to India as soon as possible by selling it to an authorised dealer against payment in rupees at the prevailing rates of exchange. Under the rules, the foreign currencies specified in Appendix V must be sold by the public within one month from the date of acquisition; this requirement applies to all residents of India other than persons of foreign domicile temporarily residing in India and others specifically authorised to hold balances abroad. The Bank has granted general permission to persons who have been maintaining sterling accounts on or before July 8, 1947 to utilise balances in such accounts as on that day, and they need not surrender them. There is an obligation on every person who is entitled to receive foreign exchange or to receive from a person outside India a payment in rupees, not to delay their transfer to India or do any act which prevents the receipt from materialising.

Since the purpose of exchange control is to encourage prompt delivery of the foreign exchange acquired by the public to the official pool, the formalities involved in the process of cashing foreign exchange into rupees by a member of the public are either for statistical purposes or for regulating the inflow of foreign capital (see chapter VII). Travellers from abroad who bring foreign currencies (including travellers cheques) with them, are free to sell their holdings to an authorised dealer or an authorised money changer. Drafts, T. Ts., etc., received from abroad can be cashed into rupees only through an authorised dealer.

Drafts, T. Ts., etc., received from other sterling area countries and rupees paid out of the balances in India of non-resident banks (as distinct from balances of individuals and firms) can be cashed by the recipients without any formalities, provided the sum involved is less than Rs. 20,000. Money can also be received from the balances kept in India by non-resident individuals and firms (whether Indian or non-Indian) without formalities upto a sum of Rs. 1,000. For receiving sums in excess of the limits referred to above from sterling area countries, and from rupee accounts of non-resident banks, individuals or firms, the formalities to be completed are as indicated below. There are no restrictions on remittances made by Indian nationals resident outside India for credit of their accounts in India or for payment to Indian nationals resident in this country. The authorised dealers will complete the appropriate form for reporting the transaction to the Reserve Bank for statistical purposes. Remittances in excess of Rs. 20,000 from *non-Indians abroad* have however, to be approved by the Reserve Bank. Before an authorised dealer can effect such payments, an application has to be made to the Bank giving particulars of the object and the source of the remittance. Money released from the rupee accounts of non-Indian nationals abroad in excess of Rs. 1,000 has also to be approved by the Bank. The condition of prior approval for remittances from non-Indian nationals is primarily intended for regulating foreign capital investments in the country. It is for this reason that for receiving remittances from non-Indians for investment purposes, the prior approval of the Bank must be obtained. Where recurring remittances are made to India for business and other specified purposes by non-Indians abroad, arrangements could be made with the Bank to have them received, with the least formality, though a form will have to be completed each time for statistical purposes.

CHAPTER VII

FOREIGN INVESTMENTS IN INDIA AND INDIAN INVESTMENTS ABROAD

Foreign Investments in India

Official policy in India is to encourage the inflow of foreign investments into the country, consistently with the objectives of national economic policy. The control over capital issues, which seeks to channelise investments in the country into desirable fields, implies a control over foreign investments as well. There are also certain special considerations regarding foreign exchange commitments such as those assumed by the country for the transfer of profits, which make it necessary for a scrutiny to be exercised over foreign investments at the time of entry. Broad declarations of policy in regard to foreign investments in India are contained in the Government's Industrial Policy statement of April 6, 1948 as clarified and amplified in the Prime Minister's statement made in the Indian Parliament on April 6, 1949. The demarcation of fields of investment between public and private enterprise in the Industrial Policy statement has, however, been flexibly interpreted to allow expansion of private investment, where feasible, even in a sector of industry normally marked for the public sector. In principle, the entry of foreign investment is encouraged in the field of manufacturing and in industries for which adequate capacity does not already exist in the country. Ordinarily, foreign investments in trading and financial enterprises are not permitted. Besides, the investment should eventually contribute to strengthening the foreign exchange position of the country, through the production of commodities which would lead to a saving of foreign exchange on imports or an addition to it through exports. Further, investment should lead to increased efficiency in the field concerned. The foreign investors should also normally be prepared to accept a minority interest in the firm or company. Finally, sufficient opportunities should be provided for training of Indian nationals in the operation and management of the enterprise. These criteria have been applied in a liberal manner, each case being considered on its merits. For example, majority participation by foreign investors has been permitted in several instances.

The Foreign Exchange Regulation Act contains specific provisions for dealing with foreign capital in India. The transfer of securities or creation of interest in securities to persons outside India requires the permission of the Reserve Bank. Similarly, permission is required for acknowledgement of any debt in favour of a person resident outside India. Transfer of interest or transfer of control of business from a resident to a non-resident, granting of loans to companies (other than banking companies) which are controlled by non-residents, and transfers of interest in securities from one non-resident to another non-resident require approval. The term 'securities' under the Foreign Exchange Regulation Act, includes shares, stocks, bonds, debentures, debenture-stocks, Government securities, deposit receipts in receipt of securities, units and sub-units of unit trusts, coupons or warrants representing dividends or interest, and life or endowment policies.

All applications involving foreign investments in industrial enterprises in India have to be addressed to the Ministry of Commerce and Industry (Industrial Policy Section), Government of India, New Delhi. The applications have to be prepared in quadruplicate in the prescribed form which can be had from the leading Chambers of Commerce in India. This requirement applies whether the investment project involves establishment of new industrial units or expansion of existing units with the collaboration of foreign investors, and whether the capital subscription represents an initial issue of capital to non-residents in a new company or additional issue of capital in an existing company, a part or whole of whose shares is already owned by non-residents and the company wishes to offer or allot new shares out of the fresh capital issue to non-residents.

The Government of India will inform the applicant of their decision while formal authorisation under the Foreign Exchange Regulation Act will be issued by the Reserve Bank.

In addition to foreign investment control, incoming foreign capital has also to seek permission from the Controller of Capital Issues, Ministry of Finance, Government of India. But unlike foreign investment control which operates irres-

pective of the amount invested, capital issues control applies only where the total issued capital exceeds Rs. 10 lakhs. In the case of proposals attracting capital issues control, the investors are advised to make an application to the Controller of Capital Issues, application to the Ministry of Commerce and Industry. Although normally the applications for foreign investments are made by registered companies or firms, there is nothing in the regulations which prevents an individual investor making an application in support of an investment proposal.

Apart from securing new shares and debentures at the time of issue, non-residents may also acquire shares and debentures of Indian companies from existing holders of these securities. These transfers can be effected only with the permission of the Bank. Even if the transaction represents a transfer of interest between one non-resident and another non-resident, it becomes valid only if it is approved by the Bank. Under the regulations, the obligation to take the permission of the Bank lies not only on the person or persons effecting the transfer but also on the companies who would be making the necessary changes in their share registers when the transfers are effected.

Export of securities (whether sent out of India or taken out) requires the permission of the Bank. An export permit is necessary even where the transfer of interest or acquisition was previously approved by the Bank. No permission is required for bringing in or importing securities from abroad whether Indian or foreign (other than Government of India securities relating to loans floated before July 15, 1947, and enfaced for payment in Pakistan).

Repatriation of Foreign Investments in India

Transfers of capital invested in India by sale or liquidation of interests by non-residents require prior approval of the Bank. In approving applications for transfer of sale proceeds abroad, a distinction is made between investments repatriated by residents of sterling area countries, and residents of non-sterling area countries. Repatriation of investments from sterling area countries is allowed freely, on application. In the case of investments from non-sterling area countries, the procedure adopted is as follows: i) capital

invested after January 1, 1950 in projects approved by Government may be repatriated at any time thereafter together with profits ploughed back, and any capital appreciation in the value of the investment ; ii) purchases of shares in the stock exchange, unless it is specifically approved by the Government after January 1, 1950 will not qualify for the facilities referred to in (i) above.

While this is the general policy in regard to repatriation of investments of non-sterling area origin, there is no bar to other applications which do not satisfy the above conditions being considered on their merits and repatriation being permitted in individual cases.

Transfer of Profits, Dividends and Interest on Non-resident Investments in India

India is one of the countries participating in the United States Government's scheme for guarantee of transfer of earnings and capital by American investors. According to this scheme, the U.S. Government offers, against a small premium, a guaranteed payment in dollars of profits and capital which the investors wish to transfer to the U.S.A. but are prevented from transferring because of exchange restrictions in the country where the capital is invested. There are at present no restrictions on the transfer of income earned by non-residents on their investments in India, and such transfers are freely allowed after completion of certain procedural formalities. Branches and subsidiaries of foreign companies in India, on application to the Bank, are allowed to remit their profits and dividends in full to their parent offices. The applications in these cases should be sent through their bankers supported by audited balance sheets, profit and loss accounts and documentary evidence of payment of Indian income and other taxes or a certificate from the auditors that sufficient funds have been set aside for tax liabilities.

All other incomes, such as dividends and interest earned by persons permanently resident outside India may be remitted by authorised dealers abroad without making any reference to the Bank provided they are satisfied that the persons to whom the dividends and interest are remitted are permanent residents of the foreign country concerned.

Indian Investments Abroad

In view of the difficult foreign exchange position, the official policy is to discourage outflow of Indian capital for investments abroad.

The Foreign Exchange Regulation Act specifies that no person shall acquire, hold or dispose of any foreign security, except with the permission of the Bank. Purchases of foreign securities by residents are not normally permitted. Foreign nationals in India, with permanent interest abroad, may, however, be allowed to purchase and hold foreign securities. Persons who are or become owners of foreign securities in a manner not involving breach of regulations (that is, acquisitions prior to the introduction of exchange control, or securities acquired by settlements made by will) are permitted to retain them. Re-investments of sale proceeds of existing holdings are also permitted.

Indian investments abroad are permitted in special cases which will promote India's exports or augment foreign exchange earnings (for example, opening of branch offices by Indian banks, export firms, shipping and insurance companies abroad).

Sale proceeds of existing investments should be repatriated to India, unless permission has been obtained from the Bank to dispose of the proceeds otherwise. Taking or sending of foreign securities outside India for sale or otherwise, requires a permit from the Bank.

Bringing into the country of income on Indian investments abroad (profits, dividends and interest) does not require any permission from the Bank. Where the amounts are small, the recipients are not required to complete any forms. In other instances, the recipient would have to either fill in a form or supply the required particulars to the authorised dealer, to enable him to report the details to the Bank.

CHAPTER VIII

IMPORTS AND EXPORTS OF GOLD, SILVER, JEWELLERY, PRECIOUS STONES, CARPETS AND CURIOS

Gold

Gold as defined for the purpose of exchange control includes gold in the form of coin, whether legal tender or not, and bullion or ingot, whether refined or un-refined, and jewellery or articles wholly or mainly made of gold. Exports and imports of gold including articles of jewellery made wholly or mainly of gold require a licence from the Bank. Licences are not granted at present, except where the gold is imported for conversion into jewellery and re-exportation. Import licences for re-export purposes are granted only to established jewellers or goldsmiths for import of gold and in such cases gold is consigned to India on the foreign exporter's account. Applications for such arrangements should be accompanied by documents evidencing that the foreign exporter of gold has obtained an export permit from the authorities concerned and an undertaking that the processed gold will be re-exported. At the time of re-exportation, in addition to securing a licence from the Bank, other exchange control formalities regarding realisation of foreign exchange proceeds also have to be completed.

Silver

Silver as defined includes bullion or ingot, silver sheets and plates, and silver coin which is not legal tender in India or elsewhere. Imports and exports of silver coins which are legal tender in India or elsewhere, are subject to the procedures indicated in Chapter IX.

While imports of silver are subject to licence by the Bank, exports come within the purview of the Chief Controller of Imports and Exports, Ministry of Commerce and Industry, New Delhi. No imports of silver are allowed by the Bank at present.

Jewellery and Precious Stones

Jewellery and precious stones are considered to include articles wholly or mainly made of platinum, diamonds of all kinds, precious stones and semi-precious stones and pearls. Jewellery also includes articles *not* wholly or mainly made of gold.

The procedure for imports and exports of jewellery and precious stones is indicated below.

Imports: Imports of jewellery and precious stones except items made wholly or mainly of gold, whether brought with travellers or sent by post to India, are governed by trade control and Customs regulations in force from time to time. In the case of gold jewellery, imports by post require the approval of the Bank. Gold jewellery brought by incoming travellers, considered to be excessive in the opinion of the Customs authorities, will be detained by them. The persons concerned will then have to apply to the Bank for a licence. In general, travellers are only allowed to bring in gold jewellery which they took with them at the time of their departure from India.

Exports: Jewellery made wholly or mainly of gold may be exported if it is made out of gold specifically imported for the purpose with the previous permission of the Reserve Bank. In other cases of export for commercial purposes, applications shall be made to the Bank giving particulars such as, name and address of exporter and full description of gold content.

Other articles of jewellery (that is, not made wholly or mainly of gold) and precious stones can be exported by *post* without permit upto Rs. 2,000 in value on any one day to Nepal, and Rs. 150 in value on any one day to Portuguese territories adjacent to India. Postal exports to other countries are also allowed without permit upto any amounts, provided, arrangements are made to realise the foreign exchange. The parcels will have to be first valued and sealed by the Customs; the subsequent procedure is as indicated in Chapter V for parcel post exports. Exports of jewellery which represent a gift to a person resident abroad are allowed only against a permit from the Bank.

Travellers going abroad are allowed certain free limits for taking jewellery and precious stones. The free limits now operating are (i) Rs. 2,000 for persons going to Pakistan, Afghanistan, Persian Gulf ports and Iran, (ii) Rs. 1,000 for adult women travellers and Rs. 500 for other travellers to Portuguese territories adjacent to India and (iii) Rs. 5,000 for travellers to other countries. A special limit of Rs. 15,000 is available for persons of foreign domicile (excepting Pakistanis) returning to their home countries.

Travellers who wish to take jewellery and precious stones in excess of the limits specified above, have to apply for a permit from the Bank on Form J. The applications for waiver of the limits are decided on the merits of each case. Foreign nationals returning to their home countries are permitted to carry all their *bona fide* personal jewellery with them. Indian nationals going abroad are granted permission to take moderate amount of jewellery against an undertaking to bring it back when they return to India.

Carpets and Curios

Importing or bringing in of carpets and curios is subject to the trade control and customs regulations in force from time to time. In the case of exports, the exchange control formalities in respect of realisation of foreign exchange from the foreign importer are indicated in Chapter V. Carpets and curios are not, however, treated as personal effects and the Customs authorities only allow them to be taken outside the country on production of a permit from the Bank.

CHAPTER IX

IMPORTS AND EXPORTS OF CURRENCY NOTES AND COIN

Imports and exports of currency notes and coin, Indian and foreign, come within the purview of exchange control. Transfer of Indian currency from residents to non-residents, constitutes an increase in the country's liabilities abroad. Similarly, foreign currency held by residents, constitutes a foreign asset of the country.

The exchange control regulations make a distinction between currency brought in or taken out by travellers and currency received (imported) or despatched (exported) by post or otherwise to or from India.

Indian Currency

Indian currency notes issued by the Government of India and the Reserve Bank at present are of three types: (i) notes intended for circulation in India, (ii) notes intended for circulation in the Persian Gulf area, and (iii) notes issued for purposes of Haj travel to Saudi Arabia, known as special notes. These special rupee notes were introduced in May/June 1959; until then ordinary rupee notes were circulating as legal tender in the Gulf area and were accepted freely in Saudi Arabia from Indian Haj pilgrims.

Rupee notes: Importing of rupee notes (issued for circulation in India) by post or otherwise to India from any foreign country is prohibited. However, incoming travellers are permitted to bring with them rupee notes upto a limit of Rs. 75 without restriction. In respect of Pakistan and Afghanistan there is a prohibition for bringing in one rupee notes, and no traveller from these two countries can bring coins in excess of Rs. 5 at any one time.

Export of rupee notes outside the country by post or otherwise requires a permit from the Bank. The permission is not ordinarily given except to banks abroad for *bonafide* sales to travellers to India.

Travellers from India are, however, allowed to carry with them freely upto a limit of Rs. 50 in notes or coin to Pakistan and Afghanistan, and Rs. 75 for all other destinations. No application or permit is required for carrying notes upto these limits.

Special notes: Special currency notes circulating in the Persian Gulf area (Kuwait, Bahrain, Qatar, Sharjah and Kalba, Ras al Khaimah, Umul Awain, Ajman, Dubai, Abu Dhabi, Fujairah, Muscat and Oman) can be imported freely, without any permission provided they are consigned from the places referred to above. Similarly, the special Haj notes can be imported freely from Saudi Arabia.

Foreign tourists coming to India can bring in special currency notes (as distinct from rupee notes which they could bring in only to the extent of Rs. 75 per person) and they need not declare them to the Customs at the time of entry, unless they expect to have a balance left unexpended at the time of their departure. If so, they should declare to the Customs on a Currency Declaration Form, the total amounts brought in, as at the time of leaving the country, they will be allowed to take out with them such special notes only to the extent of the amounts declared on the Form at the time of entry into India less the amounts cashed.

The export of special notes requires a permit from the Bank. The permit is granted only to banks in the specified areas referred to above. As regards the amount of currency that can be carried by travellers, the permitted limit which could be availed of against the travel quota is Rs. 75. There is, however, a higher limit applicable in the case of Haj travellers to Saudi Arabia during the Haj seasons. The amounts permitted for each traveller are fixed for each Haj season in advance.

Persons who are not ordinarily resident in India and who have brought special notes with them from Persian Gulf ports, are permitted to carry back all such currency declared by them on the Currency Declaration Form, on their departure from India.

Foreign Currency

Foreign currency notes or coin can be imported or exported only with the permission of the Bank. Ordinarily

such permission is not granted except to authorised dealers for *bona fide* purposes (importing their supplies of foreign currency for meeting the requirements of travellers and exporting surplus holdings abroad).

Travellers from abroad are permitted to bring with them any amount of foreign currency or coin; and if they desire to take back any of them, they should make a declaration of the total amount of such currency, on arrival, to the Customs authorities. As in the case of special notes they would be allowed to take out with them when leaving the country, foreign currency notes and coin only to the extent of the amounts declared on the Currency Declaration Form *less* the amounts cashed.

The procedure for declaration of foreign currency and coin is the same as that for special currency notes. Unless the person concerned is a foreign tourist or a transit passenger, the foreign currency brought in by a traveller *should be sold* to an authorised dealer or authorised money changer.

Travellers proceeding abroad are free to carry with them foreign currency notes upto a value of Rs. 75. This is the overall limit for carrying Indian and foreign currency notes; for instance, a person who has Indian rupee notes of Rs. 25, can carry with him foreign notes only to the extent of Rs. 50. There are exceptions to this. Travellers to Pakistan can carry Pakistan currency to the extent of Rs. 100, besides Indian currency to the extent of Rs. 50, while travellers to Afghanistan can carry *any amount* of Afghanistan currency. Persons who are not ordinarily resident in India, can carry back with them foreign currency to the extent of what they had brought at the time of arrival and declared on the Currency Declaration Form.

CHAPTER X

RUPEE ACCOUNTS OF NON-RESIDENT INDIVIDUALS, COMPANIES AND BANKS

Accounts of Individuals and Companies

Persons resident outside the country maintain accounts in India for business and private reasons, for example, collection of interest and dividends on their investments in India, making of various disbursements such as insurance premia, family maintenance, etc. The accounts may be held by Indian nationals living abroad, as well as foreign nationals who had retired from the country or others, who because of their business connections with this country, have found it necessary to open such accounts. Sometimes, a non-resident might come to have an account in India involuntarily — for instance, because payments abroad are disallowed for unauthorised imports or because restrictions are imposed on transfer of assets of persons retiring or emigrating from India. All non-resident accounts in India come within the purview of the Exchange Control regulations.

When a non-resident wishes to open an account in India either he or the bank with whom the account is to be maintained should make an application to the Reserve Bank for permission to open it. The application should state the non-resident's full identity, country of residence, purpose for which the account is to be opened, and how the account will be kept in funds. In the case of persons who were previously in India and who continue to maintain their accounts in India, the bank with whom the account is held should report the matter to the Reserve Bank.

The general procedure in regard to the operations on such accounts is as follows: Dividends and interest on securities owned by the non-residents can be freely credited to the accounts. Similarly, the accounts can be debited for (a) petty expenses, for example, payments for servants, telegram charges, bank charges upto Rs. 100 at any one time, and (b) approved remittances abroad. In all other cases, the relevant form will have to be completed but the following

categories of transactions are allowed without the permission of the Bank.

Credits : (i) crediting of money received from abroad by Indian nationals *upto any amount* and (ii) crediting of proceeds of small cheques issued in India (individual amounts not to exceed Rs. 750) upto a maximum of Rs. 2,000 *per month*. **Debits:** (iii) debiting of cheques in favour of persons resident in India (or in favour of the account holder himself while he is temporarily in India) above Rs. 100 but not exceeding Rs. 1,000 at any one time and (iv) payments for insurance premium, income-tax, family maintenance, and payments to relatives, above Rs. 100 but not exceeding Rs. 1,000 at any one time.

All other credits and debits require the prior approval of the Bank. Application has to be made in the prescribed form.

Accounts of Non-resident Banks in India

All accounts kept with banks in India by banking institutions outside the country are designated as non-resident bank accounts. For the purpose of this designation, accounts of a foreign branch of an Indian bank with another Indian branch of the same bank are also regarded as non-resident accounts. Authorised dealers are permitted to open rupee accounts in the names of bank branches or principals or correspondents or agents outside India subject to advice to the Reserve Bank stating in particular, the purposes for which the account will be used and the manner in which it will be kept in funds.

Credits and debits to these rupee accounts have exactly the same implications as direct settlements in foreign currencies. All debits and credits to these accounts have to be supported by applications on the relevant form excepting (i) for debits in respect of exports and (ii) other debits of amounts below Rs. 20,000.

APPENDIX I

Sterling Area Countries

- (1) Any country, within the Commonwealth (except Canada),
- (2) The Irish Republic, (3) British Trust Territories, (4) British Protectorates and Protected States, (5) Burma, (6) Iceland,
- (7) The Hashemite Kingdom of the Jordan, and (8) Libya.

APPENDIX II

Authorised Dealers in Foreign Exchange in India

1. Allahabad Bank Ltd.
2. American Express Co., Inc.
- *3. Andhra Bank Ltd.
4. Bank of Baroda Ltd.
5. Bank of China.
6. Bank of Cochin Ltd.
7. Bank of India Ltd.
8. Bank of Maharashtra Ltd.
9. Bank of Tokyo Ltd.
10. British Bank of the Middle East.
11. Canara Bank Ltd.
12. Central Bank of India Ltd.
13. Chartered Bank.
14. Comptoir National D'Escompte de Paris.
15. Devkaran Nanjee Banking Co. Ltd.
16. Eastern Bank Ltd.
17. First National City Bank of New York.
18. Habib Bank Ltd.
- *19. Hindustan Commercial Bank Ltd.
20. Hongkong and Shanghai Banking Corporation.
21. Indian Bank Ltd.
22. Indian Overseas Bank Ltd.
23. Lloyds Bank Ltd.
24. Mercantile Bank Ltd.
25. Mitsui Bank Ltd.
26. National Bank of Pakistan.
27. National and Grindlays Bank Ltd.
28. Netherlands Trading Society.
29. Punjab National Bank Ltd.
30. State Bank of Hyderabad.
31. State Bank of India.
- *32. State Bank of Jaipur.
33. State Bank of Mysore.
34. State Bank of Travancore.
35. Thomas Cook & Son (Continental & Overseas) Ltd.
36. Union Bank of India Ltd.
37. United Bank of India Ltd.
38. United Commercial Bank Ltd.

Authorised to deal in sterling and sterling area currencies only.

APPENDIX III

Prescribed Methods of Payment for Imports

<i>Countries</i>	<i>Methods of Payment</i>
A. Convertible Account countries	
Group A (i)	
Austria Belgian Monetary Area (Belgium, Luxembourg and Belgian Con- go) Canada Denmark (including Faroe Is- lands) Dutch Monetary Area (The Nether- lands and Netherlands West Indies) French Franc Area (Metropolitan France and the Overseas Empire) French Somali Coast Italian Monetary Area Iraq Norway Panama Philippine Islands Portuguese Monetary area (Portugal and Portuguese Em- pire excluding the Portuguese territories adjacent to India) Sweden Switzerland and Liechtenstein The United States of America and any territory under the sove- reignty of the U.S.A. Western Germany	Payment in rupees or ster- ling to the account of a resident of the country con- cerned or to any country in the 'Convertible Account group'. or Payment in the currency of the country concerned or payment in the currency of any territory in the group.
Group A (ii)	
All countries other than those mentioned in group A (i), above and B and C below.	Payment in the currency of any country mentioned in A (i) or in rupees or ster- ling to the account of a resident of the country con- cerned or to any country in the 'Convertible Account group'.

B. Bilateral Account countries

Afghanistan
Egypt
German Democratic Republic
Poland
The U. S. S. R.
Bulgaria
Czechoslovakia
Hungary
Roumania
Yugoslavia

} Payment in rupees to the account of a resident of the country concerned.

C. Sterling area countries

(See Appendix I)

} Payment in sterling or sterling area currency other than Indian rupees to the account of a resident in any country in this group other than India
or
Rupees to the account of a bank in any country in this group other than India.

APPENDIX IV

Prescribed Methods of Payment for Exports

Countries

Methods of Payment

A. Convertible Account countries

Group A (i)

Austria
Belgian Monetary Area (Belgium, Luxembourg and Belgian Congo)
Canada
Denmark (including Faroe Islands)
Dutch Monetary Area (The Netherlands and Netherlands West Indies)
French Franc Area (Metropolitan France and the Overseas Empire)
French Somali Coast
Iraq
Italian Monetary Area
Norway
Panama
Philippine Islands

} Currency of any country in this sub-group

or

} Sterling from an 'External Account', as defined under the U.K. Exchange Control Regulations.

or

Portuguese Monetary Area (Portugal and Portuguese Empire excluding the Portuguese territories adjacent to India)	} Rupees from the account of a bank in any country in the Convertible Account group.
Sweden	
Switzerland and Liechtenstein	
The United States of America and any territory under the sovereignty of the U.S.A.	
Western Germany	

Group A (ii)

All countries other than those mentioned in sub-group (i) of group A, and groups B and C below	} Currency of any country in sub-group (i) or Sterling from an 'External Account', as defined under the U.K. Exchange Control Regulations or Rupees from the account of a bank in any country in the Convertible Account group.

B. Bilateral Account countries

Afghanistan	} Rupees from the account of a bank in the country of import.
Egypt	
German Democratic Republic	
Poland	
The U.S.S.R.	
Bulgaria	
Czechoslovakia	
Hungary	
Roumania	
Yugoslavia	

C. Sterling Area countries

(See Appendix I)

}	Sterling or any sterling area currency other than Indian rupees from the account of a resident in any country in this group other than India.
	or Rupees from the account of a bank in any country in this group other than India.

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